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Mr. Chairman, It is a pleasure to testify at these hearings and to provide historical perspective and reflections on the evolution of the congressional budget process during the past 30 years. Having been a midwife at the creation of the Budget Committees, I recall the heady optimism of the early years of the new process, and have witnessed the ups and downs of congressional budgeting over the years. In fact, the concluding chapter of one of my books was initially labeled "The Manic-Depressive Budget Process". Of course, the editor objected that people are manic-depressive, not processes. My reply was, "You obviously haven't observed congressional budgeting."

Congressional budgeting is a somewhat different process every year because fiscal and political conditions vary from one year to the next. One year, fiscal austerity is the dominant sentiment, another it is to finance the unmet needs of the American people. One year, Congress and the President have the same budget priorities, the next they diverge. The outward shell of the process – a concurrent resolution on the budget – has persisted through three decades, but the way Congress uses its budget tools has changed. Looking back at the history of this Committee, one can identify four distinct phases of congressional budgeting. The first stage inaugurated the process and established budgeting as an ongoing responsibility of Congress. The second added reconciliation and targeted deficit reduction as the number one priority. The third saw congressional budgeting enveloped in preset rules, the Gramm-Rudman-Hollings laws of 1985 and 1987, and the Budget Enforcement Act of 1990. The current state sees congressional budgeting principally as a vehicle for reconciliation and for adjusting annual spending limits. Each state has left imprints on congressional budgeting; today's process is an amalgam of developments over the past three decades.

(1) Getting Started (1987-80). The first stage was characterized by the building of new budget institutions and the adoption of budget resolutions as an expression of congressional independence from the President and its responsibility for budget policy. The new process did not dictate any particular budget outcome. It did not require Congress to balance the budget, nor did it prescribe revenue or spending levels. It permitted Congress to take any action a majority wanted, provided it acted within the framework of the budget process. The architects of the Congressional Budget Act assumed that a responsible Congress would require the Federal Government to operate within its means. But this aspiration was dashed by the economic adversities which coincided with the launch of congressional budgeting.

Party line voting emerged early in the House. The very first budget resolution it produced (for fiscal 1976) squeaked through 200-196. The majority party carried the full burden of corralling enough votes to get the resolution through, with almost all minority Members voting against adoption. Majority party leaders intervened to assure passage, but their main role was to persuade recalcitrant Members to back the process, even if their main role was to persuade recalcitrant Members to back the process, even if they didn't approve of the policies expressed in the budget resolution. This was not an easy chore, for adopting the resolution meant that the majority party – the Democrats in those days – had to vote for chronic budget deficits. They had to do so at least two times a year because the original Budget Act provided for both a Spring resolution before appropriations were considered and a Fall resolution, after appropriations bills were enacted.

During the early years, the Senate took a bipartisan approach, with Democrats and Republicans joining ranks to support the nascent Budget Committee. This show of support enabled the Senate Budget Committee to challenge other committees when they disregarded the policies set in the budget resolution. Yet the new process had one fundamental weakness: it did not regulate the revenues or spending generated by existing laws, even when these amounts varied from the levels specified in the budget resolution. Legislative committees frequently thwarted the budget process by doing nothing. Legislative inaction triumphed over budget action.

(2) <u>Budgeting with Reconciliation (1980-90).</u> In 1980, Congress responded to this problem by redeploying the reconciliation process. As envisioned in the Budget Act, reconciliation was to come into play in tandem with the Fall budget resolution. It would adjust amounts in appropriations and other measures that were at variance with the levels set in the budget resolution. Because of its narrow scope, reconciliation was limited to 20 hours of floor time in the Senate. This form of reconciliation proved unworkable, for it was impractical for Congress to roll back expenditures that it had approved only weeks earlier in appropriations bills.

Congress transformed reconciliation in 1980 by attaching it to the first rather than the second resolution, and thereby reoriented it from dealing with that years' legislation to dealing with revenue and spending under existing law. The budget resolution came to be regarded as a key instrument in combating high budget deficits. Congressional independence receded in importance, and the President gained a powerful tool for influencing legislative action. In 1981, Ronald Reagan adroitly used reconciliation to reshape federal tax and spending policies.

Reconciliation boosted the budget process, but it alarmed many other legislative committees which were concerned that it would empower the Budget Committees to dictate what they did. The chairs of almost all House committees voiced their opposition to reconciliation in an open letter to the Speaker. Over time, however, many committees came to view reconciliation as a vehicle for legislation that could not be passed in free-standing bills. The Senate responded to this tendency by adopting the Byrd Rule, which limits the types of provisions in reconciliation bills. It is a complex rule that Senate conferees often use to their advantage in resolving differences in reconciliation bills passed by the two chambers.

Shifting reconciliation to the first budget resolution rendered it useless for Congress to adopt a second resolution, and this measure was discarded in amendments to the Budget Act. Reconciliation (and other factors) spurred Congress to lengthen the time horizon of the resolution. Initially set at only one year, the time frame was stretched to three years, then five, and after several adjustments to ten years. This time frame has become the standard used by CBO in constructing baseline budget projections.

Reconciliation probably contributed to political polarization in Congress, especially in the Senate which previously has bipartisan cooperation on budget resolutions. Reconciliation was used to make major changes in revenue and spending policies, matters on which the two parties often disagree. One should note, however, that polarization has been fed by multiple factors, and that it probably would have occurred even if Congress had not broadened its budget process.

(3) Budget Enforcement (1990-2000). The discretionary caps and PAYGO rules enacted in 1990 substituted fixed constraints for congressional discretion. In contrast to the original design, which empowered Congress to adopt any budget policy supported by majorities in the House and Senate, the BEA rules restricted Congress' power to appropriate and legislate changes in revenue or mandatory spending legislation. With key elements of budget policy fixed in law, the budget resolution came to be regarded as a means of facilitating passage of reconciliation bills. In some years, the budget resolution was crammed with "sense" of the House of Senate statements that had political value, but did not influence legislative action.

During this period, the budget process was the most important action taken by Congress in some years, and among the least important in others. In some years, it made all the difference, in others none whatsoever. The budget resolution drove the legislative agenda when it contained reconciliation instructions; it merely rubber stamped what would have happened even if Congress did not adopt a resolution. Through reconciliation, the resolution reshaped budget policy in 1990, 1993, and 1997. (President Clinton vetoed a 1995 reconciliation bill passed by Congress.) There was no reconciliation bill in 1998 and, for the first time since the budget process was introduced, Congress failed to adopt a budget resolution.

Both BEA and reconciliation require Congress to score the budgetary impact of legislative actions. In some years, scoring has been the dominant feature of congressional budgeting, impelling committees and Members to configure legislation so as to get favorable scores. Some observers believe that scoring has diminished attention to the substantive implications of budget policy; others are concerned that budgetary legerdemain has impaired the credibility of the process. Scoring determines the fate of legislation and has made much of budgeting into an arcane exercise. Generations from now, the Medicare "donut" will be a testament to the power of the scorekeepers.

(4) Budgeting for tax cuts (2001-). Since 2001, the foremost purpose of congressional budgeting has been to facilitate enactment of tax cuts through the reconciliation process. With expiration of BEA, the House or the Senate have used the resolution to cap discretionary spending or to impose some form of PAYGO.

Differences between the House and Senate have become more prominent in recent years, and partisan fissures have deepened. In some years, the two chambers have been unable to resolve differences in conference, and have gone their separate ways by adopting "deeming" resolutions in lieu of a regular resolution. This device has preserved the budget process, but it is a poor substitute for the real thing. The more they rely on deeming resolutions, the less incentive the House and Senate have to hammer out budget policy that is endorsed by both chambers. There may no loss of enforcement when each chamber goes it alone, but there is a loss of legitimacy.

Over the years, party leaders have become dominant players in congressional budgeting. The Majority Leadership has the burden of producing sufficient votes to pass the resolution. The House Budget Committee is beholden to the Leadership and has less margin for independence than its Senate counterpart. In the House, Party leaders cut key deals and dictate many of the terms that produce the votes needed for passage. This pattern has spread to other areas of legislative activity, and has as much to do with the contemporary structure of the House as with characteristics of the budget process.

What the Budget Process Has (and Has Not) Accomplished

A fair assessment of the budget process must take account of both the objectives of the 1974 Act and the transformation of the U.S. economy and Congress that began just about the time that the process was launched. Evidently, the process did not put an end to deficit spending, nor did it halt the rise in mandatory entitlements. Using these outcomes as measures of budgetary success or failure would be unfair because the budget process cannot do what Congress does not want it to do, and Congress itself cannot do what voters do not want. Beset by conflicts in Congress and contradictions in public opinion, budgeting has muddled through under an implicit contract that the necessary votes will be forthcoming to pass the resolution provided that ongoing programs are preserved. When the needed votes appear lacking, the resolution is sweetened by accommodating additional spending. In several recent years, this implicit contract has broken down, because of conflict between the House and Senate or within the ranks of the majority party.

In budgeting, Congress must navigate through the minefields of public opinion, trying to reconcile the inconsistent demands of voters who want both smaller government and bigger programs. The task is easier when the economy is buoyant and revenues are trending upward. When these favorable conditions are absent, Congress usually prefers to spare contested programs, even if the result is a bigger deficit. With these overall conclusions as background, let us consider three inter-connected questions: (1) What has been the impact of the budget process on budget outcomes? (2) What has been the impact on the conduct of budgeting, including relations between Congress and the President? (3) What has been the impact on Congress, including relations between the

House and Senate, the role of party Leaders, the overall level of conflict within Congress, and relations between the Budget Committees and other committees?

Budget Outcomes. The Budget Act empowered Congress to take a comprehensive view of Federal revenue and spending; it did so by requiring the House and Senate to explicitly vote on total revenue, total spending, the public debt, and the surplus or deficit. Before the Budget Act, the totals were merely the arithmetic sums of past and current decisions. The totals were not voted, nor were they explicitly taken into account when the House or Senate acted on revenue and spending measures.

Budget totals are an amalgam of old and new decisions. At times, Congress has effectively used the budget process to drive policy changes in revenue or spending through the House and Senate. In general, the policy changes voted in the budget resolution have been more dramatic on the revenue side of the ledger than on expenditures. Major changes in revenue were triggered by the budget resolution in 1981, 1990, 1993, 2001, and 2004. Smaller changes were driven through Congress in half a dozen other years. Some of the changes have boosted revenues, others have cut them. While the substantive merits of tax legislative are almost always maters that divide the two parties, there can be no doubt that the budget process has facilitated major shifts in revenue policy that might have been more difficult to enact if Congress had lacked this device.

The spending side of the budget has exhibited much more stability. Congress has been no more successful than the President in curbing incrementalism in Federal spending. Both discretionary and direct spending exhibit incremental tendencies, but it is useful to distinguish them in assessing Congress' control of the purse. Through the budget process, Congress has effectively decided the annual amount of increase in discretionary appropriations. Aided by BEA rules during the 1990s, the budget resolution limited the increase to the amount allowed by the spending caps. It is instructive, however, that with the arrival of budget surpluses in 1998, Congress changed its behavior, even though the BEA rules remained on the books for another four years. Congress, on its own initiative or prodded by the President, accommodated more spending in the budget resolution than BEA provided, using the emergency escape route and other bookkeeping devices to stay within the rules while breaching them. Budget rules and the budget process made a difference, but only when they were reinforced by political will in the executive and legislative branches.

Discretionary spending has been effectively regulated through section 302 allocations to the Appropriations Committee, each of which subdivides available amounts among its subcommittees. There is no comparable process for direct spending, almost all of which is accounted by mandatory entitlements which are controlled by statutory formulas and eligibility rules. The fundamental difference between the two types of spending is that discretionary expenditure requires annual appropriations while mandatory expenditures, including increases above the previous year’s level, occur even if Congress does nothing.

As noted earlier, Congress reoriented reconciliation in 1980 to deal with this problem. But while reconciliation has been deployed frequently to change the amount spent on particular entitlements, especially Medicare and Medicaid, it has rarely been used to change the structure of programs. Most reconciliation-driven changes have been financial adjustments, such as increases in Part B Medicare premiums and decreases in payments to providers. Reconciliation's time frame – typically a few weeks between adoption of the budget resolution and committee recommendations – does not allow a serious review of complex programs.

Entitlements are a significantly larger share of total federal spending today than they were 30 years ago. Most budget projections show their share rising over the next 30 years if current law remains intact. PAYGO has been a reasonably effective means of regulating new or expanded entitlements; it has had no effect on the incessant rise in spending under existing law. There is a fundamental reason for this, which goes beyond the machinery of budgeting to relations between government and citizens. Most entitlements are a voluntary surrender of budget control by the executive branch and Congress in order than citizens have strong, credible commitments from government that they will receive promised financial assistance when they are old, disabled, ill, unemployed, and so on. This tradeoff tells us that in the political coin of the United States, protecting the financial security of American households is deemed more valuable than upholding budget control. Because this is a political "contract", it can be undone only when Congress and the President have the political will to change its terms.

Congress has had occasional success in dealing with deficits, but the evidence is that the shortfall must be quite large before it acts. Deficit spending has been the norm in 26 of the Budget Act's 30 years, and it is likely to be the outcome for quite a few more years. The ill-fated Gramm-Rudman-Hollings laws taught us that Congress cannot control the deficit unless it takes effective steps to regulate revenue and expenditures. But Gramm-Rudman-Hollings was not a fair test of deficit control because it was not coupled with revenue and spending controls. This may be the most effective formula for taming big deficits.

Not all budget deficits are alike. Some occur when the economy is weak, others when it is strong. Some shortfalls are truly small and have no measurable impact on financial markets, others are quite large and expose the United States to serious financial risks. The fact that the current bout of deficit spending has occurred at a time of low (and sometimes declining) interest rates has made it difficult to get political leaders to see it as a problem. Moreover, a body of economic literature argues that deficits matter less than marginal tax rates, and that it would be preferable to have a smaller government with a bigger deficit than a bigger government with a small deficit. With analysts and political leaders divided on this issue, and Americans not yet regarding deficits as urgent, Congress has not paid attention.

The Conduct of Budgeting. The budget resolution is more than a mere “sense of the Congress” resolution, but less than a full-blown budget. Nothing has to stop if Congress fails to complete action on the resolution. When it is adopted, as has happened in all but a few years, the budget resolution guides section 302 allocations and reconciliation. President Bush has proposed that the budget resolution be enacted as a joint (rather than concurrent) resolution. If adopted, this change would make the President a formal partner in Congress’ budget process. The present role of the President is informal and political, and arises out of the fact that he can veto appropriations and reconciliations bills, as well as other budget-related measures passed by Congress. The President already exerts considerable influence on congressional budgeting, and in some years he is the dominant player. The exuberant hopes of 1974 that the budget resolution would be a declaration of congressional independence from the White House have been dashed by the realities of American politics.

Yet, even as a political partner, the President does not get all that he wants. The budget resolution impelled Congress to make significant changes in the tax cuts enacted in 2001 and 2004 and in the Medicare expansions enacted in 2003. Formalizing the President's budget role through a joint resolution is likely to have collateral effects that go well beyond relations between the two branches. One should not be surprised if a joint budget resolution were to become a vehicle for other legislation, or if conflict between the two branches would block final passage.

Congress now has much more budgetary information than it had prior to the 1974 Act. CBO has become an authoritative, independent source of data and analysis for Congress, and scoring has given Congress timely estimates on budget impacts before it acts. In budgeting, ignorance is not bliss, but information does not by itself change what Congress does. Yet there are instances where the supply of new types of budget information has almost certainly changed legislative behavior. Foremost is the baseline methodology used by COB to project the revenue, spending or deficit impact of pending or completed legislative actions. This is not the place for assessing the baseline's importance as Congress' measuring rod, but there can be no doubt that the baseline has not been a neutral device. Even though the underlying methodology may be neutral, the uses to which baselines are put are not.

Timing is a critical element in budgeting, if only because the process recurs each year. In some years, long delays in finalizing the budget resolution have allegedly held up action on other measures. These delays are often due to conflict within Congress and difficulty faced by the Budget Committees and party leaders in securing the votes needed for passage. Inertia has also taken a toll, as have political decisions to defer contentious issues until late in the session. This year's accelerated schedule shows that the House can operate within the prescribed budget calendar.

Impacts on Congress. The budget process has changed Congress more than Congress has changed the way it budgets. The budget process has contributed to elevated conflict in Congress, while boosting (as already discussed) the role of Party Leaders. It also has complicated relations between the Budget Committees and other congressional committees.

Congressional budgeting frames the legislative agenda for each session, compelling leaders to set aside blocks of time for the budget resolution and any ensuing reconciliation bill, the various appropriations bills, revenue measures, and other budget-related legislation. Nowadays, Congress produces many fewer free-standing public laws than it once did. Elevated conflict is the main culprit, but the time demands of congressional budgeting also have crowded out much authorizing legislation. In the contemporary Congress, it may be easier to pass an omnibus bill that sprawls over more than a thousand Statute pages and covers dozens of topics, than to obtain approval of a bill that pertains to only one subject.

Members of Congress complain about the budgetization of legislative debate; that is, defining issues and producing measures in terms of their budget impacts rather than their substantive objectives. This complaint may be overstated, but there is little doubt, as I previously suggested, that scoring determines the fate of much legislation. Sometimes, it appears, the score is the only thing that matters, as Members and lobbyists vie to get a score that will facilitate passage. By now, insiders are well versed in the tricks of the trade, how to adroitly use sunsets (or phase-ins and phase-outs) to generate a favorable score, how to show tax cuts as revenue increases by front-loading provisions that add revenue and backloading those that subtract revenue. I am not criticizing the way the game is played, but I do wish it did not have to be played at all.

It is not hard to figure out that congressional budgeting fuels friction within the House and Senate. In most years, most appropriations bills pass by lopsided margins, while the budget resolution makes it through with few votes to spare. Appropriations bills disaggregate spending issues into line items, the budget resolution aggregates them into fiscal totals. Democrats and Republicans, liberals and conservatives who disagree on the aggregates often agree on the line items, either because they logroll one another or because they favor the spending item. Democrats and Republicans do disagree on whether the budget deficit should be reduced by raising taxes or trimming expenditures. They cannot paper over these conflicts by layering the budget resolution with earmarks, as they do on appropriations bills.

Escalation of budgetary conflict affects not only the political parties, but relations between the House and Senate as well. In some years, the House and Senate passed different resolutions and could not patch over their disagreements in conference. The deeming resolution mentioned earlier are an artful device that enables each chamber to go its own way.

Concluding Thoughts

The budget process has survived because enough Members want it to and because the Majority Leadership invests it with enough support to pull the resolution through.

This is not the ideal situation for congressional budgeting, but it will have to do until the process is redesigned or Members get more enthusiastic. One should not expect a reformed process to function much differently than the current one, though adorning it with BEA-type rules can lessen conflict by pre-deciding some key issues. A Government that takes in and spends more than $2 trillion every year needs a budget process to structure and discipline congressional decisions. Having a more tranquil process might help a bit, but with so much at stake each year, one should not be surprised if the budget process continues to limp along for another three decades.